Rubicon Technology, Inc.
Form 10-Q
August 08, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended June 30, 2011

or

¨ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from ______ to ______

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-4419301**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
900 East Green Street Bensenville, Illinois	**60106**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (847) 295-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 5, 2011 the Registrant had 23,039,548 shares of common stock, par value $0.001 per share, outstanding.

Table of Contents

RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended June 30, 2011

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements
Rubicon Technology, Inc.

Consolidated balance sheets

	June 30, 2011 (unaudited)	December 31, 2010
	(in thousands other than share data)	
Assets		
Cash and cash equivalents	$ 19,973	$ 16,073
Restricted cash	542	533
Short-term investments	63,000	66,131
Accounts receivable, net	31,243	18,676
Inventories, net	12,615	11,135
Other inventory supplies	11,437	7,821
Prepaid expenses and other current assets	1,725	1,862
Deferred tax assets	1,990	
Total current assets	142,525	122,231
Property and equipment, net	103,624	82,511
Investments	2,000	2,000
Deferred tax assets	1,339	
Total assets	$ 249,488	$ 206,742
Liabilities and stockholders equity		
Accounts payable	$ 8,465	$ 9,255
Accrued payroll	1,652	2,538
Corporate income and franchise taxes	2,084	407
Advance payments	385	1,103
Accrued and other current liabilities	2,614	1,345
Total current liabilities	15,200	14,648
Commitments and contingencies (Note 9)		
Stockholders equity		
Preferred stock, $0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, $0.001 par value, 45,000,000 and 85,000,000 shares authorized and 24,289,523 and 24,210,644 shares issued; 23,039,548 and 22,960,669 shares outstanding	24	23
Additional paid-in capital	340,716	327,515
Treasury stock, at cost, 1,249,975 shares	(5,661)	(5,661)
Accumulated other comprehensive deficit	(30)	(10)

Accumulated deficit	(100,761)	(129,773)
Total stockholders equity	234,288	192,094
Total liabilities and stockholders equity	$ 249,488	$ 206,742

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

Rubicon Technology, Inc.

Consolidated statements of operations

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
	(unaudited) (in thousands, other than share data)			
Revenue	$ 43,028	$ 15,787	$ 80,998	$ 27,303
Cost of goods sold	15,828	8,562	29,823	15,925
Gross profit	27,200	7,225	51,175	11,378
Operating expenses:				
General and administrative	3,056	2,436	5,977	4,577
Sales and marketing	388	306	765	563
Research and development	410	234	837	446
Loss on disposal of assets	7	305	7	305
Income from operations	23,339	3,944	43,589	5,487
Other income:				
Interest income	64	56	151	153
Realized loss on foreign currency translation		(19)	(6)	(59)
Realized gain (loss) on investments		(7)		8
Total other income (expense)	64	30	145	102
Income before income taxes	23,403	3,974	43,734	5,589
Income tax expense	13,495	86	14,722	126
Net income	$ 9,908	$ 3,888	$ 29,012	$ 5,463
Net income per common share				
Basic	$ 0.43	$ 0.19	$ 1.26	$ 0.27
Diluted	$ 0.41	$ 0.18	$ 1.21	$ 0.25
Weighted average common shares outstanding used in computing net income per common share				
Basic	23,031,039	20,790,208	23,012,326	20,517,277
Diluted	23,928,408	21,912,520	23,936,026	21,675,190

The accompanying notes are an integral part of these consolidated statements.

3

Table of Contents

Rubicon Technology, Inc.

Consolidated statements of cash flows

	Six months ended June 30, 2011 (unaudited) (in thousands)	Six months ended June 30, 2010 (unaudited) (in thousands)
Cash flows from operating activities		
Net income	$ 29,012	$ 5,463
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,265	2,790
Net loss on disposal of assets	7	305
Stock-based compensation	1,750	1,013
Realized gain on investments		(8)
Deferred tax assets	(3,329)	
Excess tax benefits from stock-based compensation	(10,711)	
Changes in operating assets and liabilities:		
Accounts receivable	(12,567)	(4,272)
Inventories	(1,442)	(237)
Other inventory supplies	(3,589)	(1,270)
Prepaid expenses and other current assets	141	(295)
Accounts payable	(825)	1,213
Accrued payroll	(888)	725
Corporate income and franchise taxes	12,389	(20)
Advanced payments	(719)	(17)
Accrued and other current liabilities	1,264	954
Net cash provided by operating activities	14,758	6,344
Cash flows from investing activities		
Purchases of property and equipment	(25,385)	(19,692)
Purchases of investments		(47,687)
Proceeds from sale of investments	3,113	15,500
Net cash (used in) investing activities	(22,272)	(51,879)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs of $4,063		61,789
Proceeds from exercise of options	741	1,251
Restricted cash	(9)	(498)
Excess tax benefits from stock-based compensation	10,711	
Net cash provided by financing activities	11,443	62,542
Net effect of currency translation	(29)	43
Net increase in cash and cash equivalents	3,900	17,050
Cash and cash equivalents, beginning of period	16,073	3,860

Cash and cash equivalents, end of period	$ 19,973	$ 20,910
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 5,420	$
Supplemental disclosures of non-cash transactions		
Unrealized loss on investments	$ 18	$ 86

The accompanying notes are an integral part of these consolidated statements.

4

Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

1. BASIS OF PRESENTATION

Interim financial data

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete consolidated financial statements and should be read in conjunction with Rubicon Technology, Inc. s (the Company) annual report filed on Form 10-K for the fiscal year ended December 31, 2010. In the opinion of management, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. Consolidated operating results for the three and six month periods ended June 30, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Rubicon Worldwide LLC and Rubicon Sapphire Technology (Malaysia) SDN BHD. All intercompany transactions and balances have been eliminated in consolidation.

Foreign currency translation and transactions

Rubicon Worldwide LLC s assets and liabilities are translated into US dollars at exchange rates existing at the respective balance sheet dates and capital accounts at historical exchange rates. The results of operations are translated into US dollars at the average exchange rates during the respective period. Translation adjustments resulting from fluctuations in exchange rates for Rubicon Worldwide LLC are recorded as a separate component of accumulated other comprehensive income (loss) within stockholders equity.

The Company has determined that the functional currency of Rubicon Sapphire Technology (Malaysia) SDN BHD is the US dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD s assets and liabilities are translated into US dollars using the remeasurement method. Non-monetary assets are translated at historical exchange rates and monetary assets are translated at exchange rates existing at the respective balance sheet dates. Translation adjustments for Rubicon Sapphire Technology (Malaysia) SDN BHD are included in determining net income (loss) for the period. The results of operations are translated into US dollars at the average exchange rates during the respective period. The Company records these gains and losses in other income (expense).

Foreign currency transaction gains and losses are generated from the effects of exchange rate changes on transactions denominated in a currency other than the functional currency of the Company, which is the US dollar. Gains and losses on foreign currency transactions are generally required to be recognized in the determination of net income (loss) for the period. The Company records these gains and losses in other income (expense).

Investments

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), in the Consolidated Statement of Operations. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, are classified as short-term.

The Company reviews its available-for-sale securities investments at the end of each quarter for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has resulted, the difference between the fair value and carrying value is written off and recorded as a charge on the Consolidated Statement of Operations. As of June 30, 2011, no impairment was recorded.

Table of Contents

Auction-rate securities put options (ARS Put Options)

In October 2008, the Company entered into an agreement that provided the Company with the right, but not the obligation, to sell all of its auction-rate securities to UBS, AG for par value during the period from June 30, 2010 to July 2, 2012. The ARS Put Options provided the Company with the opportunity to recover the estimated unrealized loss on its ARS investments. The Company recorded the fair value of the ARS Put Options upon receipt. The Company valued ARS Put Options at fair value using a discounted cash flow model. Unrealized gains and losses related to the ARS Put Options were recognized in earnings. The Company exercised these put options on June 30, 2010. At June 30, 2011, the Company had no investments in auction rate security put options or auction rate securities. The Company s investment policy no longer allows auction rate securities as an approved investment. See Note 4 Investments for additional information regarding the ARS Put Options.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method, and includes materials, labor and overhead. The Company reduces the carrying value of its inventories for differences between the cost and the estimated net realizable value, taking into account usage, expected demand, technological obsolescence and other information. Inventories are composed of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Raw materials	$ 5,833	$ 5,196
Work in progress	3,206	3,135
Finished goods	4,045	3,358
	13,084	11,689
Reserve for obsolescence and realization	(469)	(554)
	$ 12,615	$ 11,135

Property and equipment

Property and equipment consisted of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Land and land improvements	$ 2,504	$ 2,500
Buildings	24,382	22,897
Machinery, equipment and tooling	76,856	56,956
Leasehold improvements	7,712	7,712
Furniture and fixtures	835	824
Information systems	906	869
Construction in progress	18,966	15,353
Total cost	132,161	107,111
Accumulated depreciation and amortization	(28,537)	(24,600)
Property and equipment, net	$ 103,624	$ 82,511

Revenue recognition

The Company recognizes revenue from product sales when earned. Revenue is recognized when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including:

Persuasive evidence of an arrangement exists. The Company requires evidence of a purchase order with the customer specifying the terms and specifications of the product to be delivered, typically in the form of a signed quotation or purchase order from the customer.

Title has passed and the product has been delivered. Title passage and product delivery generally occur when the product is delivered to a common carrier.

The price is fixed or determinable. All terms are fixed in the signed quotation or purchase order received from the customer. The purchase orders do not contain rights of cancellation, return, exchange or refund.

Collection of the resulting receivable is reasonably assured. The Company s standard arrangement with customers includes payment terms. Customers are subject to a credit review process that evaluates each customer s financial position and its ability to pay. Collectability is determined by considering the length of time the customer has been in business and history of collections. If it is determined that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

The Company does not provide maintenance or other services and it does not have sales that involve multiple elements or deliverables.

Net income per common share

Net income per share of common stock is as follows for the three and six months ended June 30, 2011 and 2010:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net income (in thousands)	$ 9,908	$ 3,888	$ 29,012	$ 5,463
Net income per common share:				
Basic	$ 0.43	$ 0.19	$ 1.26	$ 0.27
Diluted	$ 0.41	$ 0.18	$ 1.21	$ 0.25
Weighted average common shares outstanding used in:				
Basic	23,031,039	20,790,208	23,012,326	20,517,277
Diluted	23,928,408	20,912,520	23,936,026	21,675,190

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of diluted common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted-average shares any outstanding stock options and warrants based on the treasury stock method.

Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS, (ASU 2011-04).* These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between US GAAP and IFRS. ASU 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of ASU 2011-04 is not expected to have a material impact on the Company s financial condition or results of operation.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, (ASU 2011-05) which amends current comprehensive income guidance. This guidance is effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The pronouncement does not change the current option for presenting components of other comprehensive income, gross, or net of the effect of income taxes, provided that such tax effects are presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. Additionally, the pronouncement does not affect the calculation or reporting of earnings per share. The pronouncement also does not change the items which must be reported in other comprehensive income, how such items are measured, or when such items must be reclassified to net income. The adoption of ASU 2011-05 is not expected to have a material impact on the Company s financial condition or results of operation.

Reclassifications

Certain prior period amounts on the balance sheet have been reclassified to conform to the current period presentation.

3. SEGMENT INFORMATION

The Company evaluates operations as one reportable segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker.

Table of Contents

Revenue is attributed by geographic region based on ship-to location of the Company s customers. The following table summarizes revenue by geographic region:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Asia	$ 38,698	$ 13,421	$ 74,084	$ 22,523
North America	3,537	1,929	5,452	4,040
Europe	793	437	1,462	740
Total Revenue	$ 43,028	$ 15,787	$ 80,998	$ 27,303

The following table summarizes assets by geographic region:

	June 30, 2011	December 31, 2010
	(in thousands)	
North America	$ 221,934	$ 186,511
Asia	27,554	20,231
Total Assets	$ 249,488	$ 206,742

4. INVESTMENTS

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. The Company s short-term investments balance of $63.0 million as of June 30, 2011, is comprised of US Treasury securities of $4.0 million, corporate notes and bonds of $37.5 million and commercial paper of $21.5 million. The Company s investments are classified as available-for-sale securities and are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss).

Until July 1, 2010, the Company held auction-rate securities as part of the investment portfolio. The auction-rate securities were trading securities recorded at fair value and unrealized gains and losses were reported as part of gain on investments in the Consolidated Statements of Operations. In February 2008, the Company began experiencing failed auctions of its entire auction-rate securities portfolio, resulting in its inability to sell these securities in the short term. The Company held put options associated with an agreement with UBS, AG related to the auction-rate securities purchased through them. The Company exercised these put options on June 30, 2010 with a settlement date of July 1, 2010. The ARS Put Options provided the Company with the opportunity to recover the estimated unrealized loss on its ARS investments. The Company recorded the fair value of the ARS Put Options upon receipt and valued the put options at their estimated fair value using a discounted cash flow model that weighs various factors, including interest rates and expected holding period. Unrealized gains and losses related to the ARS Put Options were recognized in earnings. During the three and six months ended June 30, 2010, the Company recorded a gain (loss) of ($7,337) and $63,466 representing the changes in fair value of the auction-rate securities. The Company also recorded during the six months ended June 30, 2010 a loss of $55,279, representing the changes in fair value of the put options. Both the gain and loss from recording the change in fair value of the put options and auction-rate securities were recorded in gain on investments in the Consolidated Statements of Operations. The Company s investment policy no longer allows auction rate securities as an approved investment.

The Company s long-term investment at June 30, 2011 consists of a $2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares and is accounted for as a cost method investment. The value is adjusted for impairment based on review of Peregrine s financial position. No impairment was noted as of June 30, 2011.

Table of Contents

The following table presents the amortized cost and gross unrealized gains and losses on all securities at June 30, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
US Treasury securities and agency (taxable)	$ 4,000	$ 4	$	$ 4,004
Corporate Notes and Bonds (taxable)	37,530		(31)	37,499
Commercial Paper (taxable)	21,496	1		21,497
Total short-term investments	$ 63,026	$ 5	$ (31)	$ 63,000
Long-term Investments:				
Peregrine Semiconductor, Corp. Series D-1 Preferred shares	$ 2,000	$	$	$ 2,000

The Company values its investments at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard below describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company s fixed income available-for-sale securities consist of high quality, investment grade commercial paper, corporate notes and government securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. The valuation techniques used to measure the fair value of the Company s financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques.

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 13,293	$	$	$ 13,293
Investments:				
Available-for-sales securities current				
US Treasury securities and agency		4,004		4,004
Corporate notes/bonds		37,499		37,499

Commercial paper		21,497		21,497
Total	$ 13,293	$ 63,000	$	$ 76,293

Table of Contents

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 10,042	$	$	$ 10,042
Investments:				
Available-for-sales securities current:				
US Treasury securities and agency		9,496		9,496
Corporate notes/bonds		38,081		38,081
Commercial paper		18,554		18,554